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The Effect of Environmental Performance And Corporate Social Responsibility Disclosure Towards Financial Performance (Case Study to Manufacture, Infrastructure, And Service Companies That Listed At Indonesia Stock Exchange)

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Abstract

The objective of this research was to examine the effect of environmental performance and CSR disclosure towards financial performance. The object in this research was companies that take part in PROPER and were listed at Indonesia Stock Exchange (IDX). In total, there were 17 companies that fulfill the requirements.

The results of this research were environmental performance had significant effect on both ROA and ROE for gold ratings. CSR disclosure had significant effect on ROE, but had no effect on ROA. Environmental performance and Corporate Social Responsibility (CSR) disclosure simultaneously had significant effect on ROA and ROE.

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1. Introduction

A company is a form of organization where the operations and all the factors that support operational activities gathered. The company's goal to make profit must be supported with sufficient funds to run company's operational

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activities. For go-public companies, one of the many ways to obtain funds is to trade its shares on Stock Exchange. Increasing competition in the business world push companies, especially go-public companies, to further demonstrate their competitive advantages that the investors are interested to invest in these companies. Financial statements are the source of company's financial performance measurement. The type of financial statement analysis that will be used in this research is the analysis of financial ratio which is proxied by Return on Assets (ROA) and Return on Equity (ROE).

Wisner, et.al. (2009) defines ROA as financial ratio of the company's net profit in relation to total assets of the company. Sugiono (2009) stated that the ROE is the ratio that measures rate of return of business over the whole existing capital.

Given the importance of financial performance to company, this research described the factors that have an impact to financial performance and emphasis in non-monetary factors which is environmental performance and corporate social responsibility (CSR). Environmental performance is the work done by company in creating a good or green environment. Environment performance can be measured using the PROPER (Program Penilaian Peringkat Kinerja Perusahaan dalam Pengelolaan Lingkungan Hidup) which produce rank that represent by colours: gold, green, blue, red, and black. Companies rated gold in Environmental Performance is the companies that showed Environmental Excellency. Companies that rated gold color of Environmental Performance will gain a higher appreciation of the community. Increasing in public appreciation and loyalty bring an increase in sales of the product and/or service produced by the company. From the other side, the company received a gold ranking in environmental performance have applied the concept of ecoefficiency. Ecoefficiency is the concept of creating more goods and services by using fewer resources and create fewer waste and pollution as possible. The increase in sales followed by cost efficiency will increase the company's net profit. Subsequent impact of the increasing in the net profit of the company is increased Return on Assets (ROA). Aside from consumers, investors also judge a company based on environmental performance carried out. Companies that have environmental performance with a gold and green ratings will be appreciated more by people. Increased public appreciation and loyalty result in increased sales of products and/or services of the company. With increasing sales, along with the application of the concept of ecoefficiency, the company's net profit would have increased. Along with the increasing company's profits, retained earnings also increased. An increased in retained earnings the company can increase the ownership of the company (shareholders' equity) in the future. Retained earnings at most companies used to be reinvested in the segment that potentially generate profits for the company. Retained earnings that are used to be reinvested in that section, will then generate returns from the increasing of income or rising revenue. The next impact is the revenue that constantly increase. Thus increasing the company's net profit will have an impact on increasing ROE.

Companies that perform and disclose CSR in its financial statements will get a better response from the public. One indicator of CSR assessment is the safety and health of consumers in the use of the product. CSR disclosure convinced public that the company produce a quality product and perform operations with ethical and responsible attitude. Along with increased in trust from the public, company's sales levels will increase. In terms of the cost, the company can perform CSR by employing local labour as a form of expansion of jobs in the community. This form of CSR indirectly reduces labour costs to be incurred by the company because of the local workforce is cheaper compared to foreign labour. The increased level of sales along with a decreased in costs will increase the company's net profit and positive effect on ROA.

Investors can also look at the performance of an enterprise from social performance conducted by company. With the disclosure of CSR, shareholders learned that the company's employees are trained and educated through a training program that has been designed by the company. In addition, shareholders also received the understanding that the company continues to conduct a review of the performance and career development of its employees. This type of CSR disclosure would then lead to a sense of confidence of the various parties that the company producing the goods and/or services with good quality workers. Along with the increasing stakeholder confidence, level of sales will increase. In terms of costs, companies do CSR with their energy savings through conservation and improved efficiency, can be an indicator of a decrease in expenses to be incurred by the company. Increased sales of the company accompanied by decreasing operating costs will increase the company's net profit. Increased corporate profits will have an impact on the company's equity by means of increasing retained earnings. An increase in retained earnings, the company can increase the ownership of the company (shareholders' equity) in the future. Retained earnings at most companies used to be reinvested in the segment that potentially generate profits for the company. Retained

earnings that are used to be reinvested in that section, will then generate returns from the increasing of income or rising revenue. The next impact is an increase in net income constantly. Thus increasing the company's net profit will have an impact on increasing ROE. Previous research states that more disclosure of social responsibility activities in the annual report the company will further enhance the company's financial performance (Syahnaz, 2013).

2. Body

2.1 Effect of Environmental Performance for ROA

Djuitaningsih (2011) states that the companies that do the better environment performance will get a good response from stakeholders that can result in increased revenue in the long term. The better the company conducts its environmental performance, will have an impact both on the development of long-term corporate finance. Alternative hypothesis to the effect of environmental performance on ROA:

Ha₁: Environmental performance affects the company's financial performance that is proxied by the ROA

2.2 Effect of Disclosure of Corporate Social Responsibility (CSR) To ROA

Research conducted by Syahnaz (2013) found a significant positive relationship between CSR and ROA. Alternative hypothesis to the effect of CSR on ROA:

Ha₂: Disclosure of Corporate Social Responsibility (CSR) affects the company's financial performance that is proxied by the ROA.

2.3 Effect of environmental performance and disclosure of Corporate Social Responsibility (CSR) simultaneously on the company's financial performance that is proxied by the ROA

Research conducted by Fitriani (2013) states that the environmental performance and environmental costs simultaneously have an impact on financial performance. Based on exposure to the charter, the alternative hypothesis to the effect of environmental performance and simultaneous disclosure of CSR on financial performance are:

Ha₃: Environmental performance and disclosure of Corporate Social Responsibility (CSR) simultaneously affect the company's financial performance that is proxied by ROA.

2.4 Effect of Environmental Performance Against ROE

Djuitaningsih and Ristiawati (2011) also states that the environmental performance has a significant and positive effect on financial performance due to the company with good environmental performance will get a good response from the stakeholders and also have an impact on long-term increase in company's earnings.

Alternative hypothesis to the effect of environmental performance on ROE:

Ha₄: Environmental performance affects the company's financial performance that is proxied by ROE.

2.5 Effect CSR Disclosure Against ROE

The company will disclose information if such information can enhance shareholder value. By implementing CSR, it is expected the company will gain social legitimacy and maximize its financial strength in the long term (Kiroyan 2006 in Haryati 2013). Bird (2006) and St. Georgen (2002) in Wijayanti, et al. (2011) states that the disclosure of CSR effect ROE. Anwar (2010) and Wijayanti, et al. (2011) in his research also found that the influence of CSR disclosure of the company's financial performance that is proxied by using the ROE. Alternative hypothesis to the effect of CSR on ROE:

Ha₅: Disclosure of Corporate Social Responsibility (CSR) affects the company's financial performance that is proxied by ROE.

2.6 Effect of Environmental Performance and disclosure of Corporate Social Responsibility (CSR) Simultaneously Against Financial Performance that proxied by ROE

Research conducted by Fitriani (2013) states that the environmental performance and environmental costs simultaneously affect the company's financial performance. Later research conducted by Haryati (2013) states that corporate social responsibility, environmental performance, and corporate governance structure simultaneously affect the financial performance of companies with significant value of 0.009. Based on the exposure to the alternative hypothesis to the effect of environmental performance and simultaneous disclosure of CSR on financial performance are:

Ha₆: Environmental performance and disclosure of Corporate Social Responsibility (CSR) simultaneously affect the company's financial performance that is proxied by ROE.

2.7 Overview of Research's Object

The objects used in this research is a manufacturing, infrastructure, and services companies listed in the Indonesia Stock Exchange period 2012-2013 and PROPER participants for period 2012-2013.

2.8 Variable Research

The method used in this study are causal study.

Dependent Variables

1. Return on Assets (ROA)

ROA calculation according to Weygandt, et al. (2013) are:

$$\text{Return on Assets} = \frac{\text{Net income}}{\text{Average Assets}}$$

2. Return on Equity (ROE)

Calculation method formulated by Subramanyam, et al. (2009), namely:

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Average Shareholders' Equity}}$$

Independent Variables

1. Environmental Performance

According to Suratno (2006) in Fitriani (2013), environmental performance is the performance of the company in creating a good or green environment. In general, performance ratings by PROPER divided into 5 colors with the following definitions: (<http://proper.menlh.go.id>)

- a) Gold, given to the person in charge of business and/or activities that have consistently demonstrated environmental excellency in the production process and/or services, implementing ethical business and responsible to the community;
- b) Green, is given to the person in charge of operations and/or activities that have environmental management more than required under the rules (beyond compliance) through the implementation of environmental management system, efficient resource use through efforts 4R (Reduce, Reuse, Recycle and Recovery), and make efforts to social responsibility (CSR/Community Development) well;
- c) Blue, awarded to the person in charge of operations and/or activities that have made the effort on environmental management in accordance with the rules and/or regulations;
- d) Red, is given to the person in charge of operations and/or activities of environmental management which efforts do not comply with the requirements stipulated in the legislation; and

- e) Black, given to the person in charge of business and/or activities that intentionally perform any act or omission that resulted in contamination and/or damage to the environment as well as violations of the laws or not imposing administrative sanctions.

2. Corporate Social Responsibility (CSR)

Companies that implement and disclose CSR items that exist in the financial statements or the sustainability report is numbered 1, while there is no disclosure of CSR given the number 0. Measurements then done using the CSR Index (CSRI). CSRI formulated as follows:

$$CSRI_j = \frac{\sum X_{ij}}{n_j}$$

(Source: Almar, et al, 2012)

2.9 Research Object

The object of this research were 17 companies which have been chosen using perpetual sampling method. The criteria were manufacturing, infrastructure, and services companies listed in Indonesia Stock Exchange, PROPER participants consistently, and published audited financial statements during the period of 2012 – 2013.

2.10 Analysis and Discussion

This research has met normality test and all the classical assumption test consisting of multicollinearity test, autocorrelation test, and heteroscedasticity test.

Hypothesis Testing For First Research Model (Effect of Environmental Performance and Disclosure CSR to ROA)

Here is a coefficient of determination of test results:

Model	R	R square	Adjusted R square	Std. Error of the Estimate
1	.654 ^a	.428	.349	.0876664
Predictors: (Constant), CSR, HJ, MR, EM				
Dependent Variable: ROA				

According to the table, it can be seen that the coefficient correlation (R) of 0.654. This suggests a strong positive correlation between CSR and environmental performance with ROA as the value of R lies between +0.5 to +1.0. The coefficient of determination (Adjusted R Square) is approximately 0,349. This indicates that the variable CSR disclosure and environmental performance can explained ROA amounted to 34.9%.

Significance Simultaneous Test (Test Statistic F) result:

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.167	4	.042	5.421	.002 ^b
	Residual	.223	29	.008		
	Total	.390	33			

a. Dependent Variable: ROA

b. Predictors: (Constant), CSR, HJ, MR, EM

According to the table, it can be seen that the F value of 5.421 with a significance level 0.002 below 0.05. This shows that the regression model can be used to predict the dependent variable, namely ROA. Moreover, it can be concluded that H_{a3} accepted or in other words the environmental performance and disclosure of CSR simultaneously affect the ROA.

Significant Test of Parameter Individual (Test Statistic t) result:

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.099	.023		4.308	.000
EM	.275	.081	1.088	3.410	.002
HJ	.058	.065	.127	.883	.384
MR	.002	.048	.005	.036	.972
CSR	-.262	.157	-.523	-1.663	.107

a. Dependent Variable: ROA

Gold significance level was below 0.05, while green and red significance level was above 0.05. These results indicate that the environmental performance effects the ROA for companies that obtain a gold rating. Based on these results, we can conclude that H_{a1} acceptable for companies that obtain environmental performance with a gold ranking, while H_{a1} rejected for companies that obtain environmental performance by ranking green and red. Results of statistical test t for disclosure of CSR, obtained t value of -1663 with a significance level greater than 0.05, that is equal to 0.107. Based on these results, we can conclude that H_{a2} rejected. It is clear that the disclosure of CSR has no effect on the financial performance that is proxied by using ROA.

Based on the table can be obtained by a regression equation used in this study, is as follows:

$$ROA = 1,088EM + 0,127HJ + 0,005MR - 0,523CSRI$$

Hypothesis Testing for Second Research Model (Effect of Environmental Performance and Disclosure CSR towards ROE)

Here is a coefficient of determination of test results:

Model	R	R square	Adjusted R square	Std. Error of the Estimate
1	.622 ^a	.386	.302	.2598238
Predictors: (Constant), CSR, HJ, MR, EM				
Dependent Variable: ROE				

According to the table, it can be seen that the correlation coefficient (R) of 0.622. This suggests a strong positive correlation between CSR and environmental performance with ROE because the value of R lies between +0.5 to +1.0. The coefficient of determination (Adjusted R Square) is approximately 0.302. This indicates that the variable CSR disclosure and environmental performance can be explained ROE of 30.2%, while the remainder, amounting to 69.8%, explained by other variables which do not exist in this study.

Here are the results of statistical F test:

This shows that the regression model can be used to predict the dependent variable, namely ROE. Moreover, it can be concluded that H_{a6} received or in other words the environmental performance and disclosure of CSR simultaneously

affect the ROE.

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.232	4	.308	4.564	.006 ^b
	Residual	1.958	29	.068		
	Total	3.190	33			

a. Dependent Variable: ROE

b. Predictors: (Constant), CSR, HJ, MR, EM

Here is the result of a statistical t test:

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.220	.068		3.216	.003
EM	.898	.239	1.243	3.762	.001
HJ	.109	.194	.084	.565	.577
MR	-.007	.142	-.007	-.047	.963
CSR	-1.178	.467	-.822	-2.524	.017

a. Dependent Variable: ROE

Gold significance level was below 0.05, while green and red significance level was above 0.05. These results indicate that the environmental performance affects the ROE when the company earned a gold rating. Based on these results, we can conclude that Ha₄ acceptable for companies that obtain environmental performance with a gold ranking, while Ha₄ rejected for companies that obtain environmental performance by ranking green and red. As for companies that obtain low results in PROPER, for example red and even companies with green PROPER result, ROE is not effected to the charter company. Results of statistical test t for disclosure of CSR, obtained t value of -2.524 with a significance level of less than 0.05, amounting to 0.017. Based on these results, we can conclude that Ha₅ accepted. It is clear that the disclosure of CSR affect the financial performance that is proxied by using the ROE. Based on the table can be obtained by a regression equation used in this study, as follows:

$$ROE = 1,243EM + 0,084HJ - 0,007MR - 0,822CSRI$$

3. Conclusion

The conclusions of this research were environmental performance had significant effect on both ROA and ROE for gold ratings. CSR disclosure had significant effect on ROE, but had no effect on ROA. Environmental performance and Corporate Social Responsibility (CSR) disclosure simultaneously had significant effect on ROA and ROE.

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